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TEHRAN 7307, 12-2371

SUBJ: IRAN'S POST-1979 PLANS RE FOREIGN OIL COMPANIES
OPERATING IN IRAN

1. SUMMARY: IN CONVERSATIONS WITH AMBASSADOR AND DAVID BARRAN OF SHELL, SHAH HAS DECLARED THAT CONSORTIUM MUST PREPARE NOW FOR EXTENSIVE CHANGES IN RELATIONSHIP WITH GOI BY 1979. OF SEVERAL OPTIONS HE PRESENTED, SHAH PREFERS JOINT GOI-CONSORTIUM PARTICIPATION IN PRODUCTION IN IRAN AND DOWNSTREAM ACTIVITIES BOTH IN IRAN AND ABROAD. IN MEANTIME EXPORT AND PRODUCTION FACILITIES MUST BE EXPANDED. SHAH AND CONSORTIUM REPS WILL MEET TEHRAN OR ST. MORITZ EARLY FEBRUARY TO DISCUSS THESE ISSUES. END SUMMARY.

2. ON DEC 21 SHAH INFORMED ME IN CONFIDENCE THAT GOI IS INITIATING TALKS WITH OIL CONSORTIUM REGARDING CONSORTIUM SITUATION AFTER 1979 WHEN, HE SAID, THEIR RIGHTS WILL TERMINATE. HE SAID HE IS LETTING CONSORTIUM MEMBERS KNOW THAT IF THEY WISH TO CONTINUE ON ANYTHING APPROACHING PRESENT BASIS AFTER 1979, THEY MUST BEGIN NOW RPT NOW TO HAMMER OUT AGREEMENT AND NOT RPT NOT POSTPONE CONSIDERATION OF POST-1979 SITUATION TILL LATER.

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3. SHAH SAID HE HAS CERTAIN REQUIREMENTS AND DEMANDS RE POST-1979 WHICH HE WILL PUT TO CONSORTIUM. HE INDICATED AMONG THE MOST IMPORTANT OF THESE WAS THAT AFTER THAT DATE IRAN WOULD NOT TOLERATE ANY MEMBER WITH A 13 1/2 PER CENT INTEREST BEING ABLE TO HAVE VETO OVER OTHER MEMBERS OF CONSORTIUM ON WHAT MUST BE DONE TO MEET IRAN'S LEGITIMATE REQUIREMENTS (THE IMPLICATION WAS THAT HE WAS REFERRING AMONG OTHER THINGS TO PRODUCTION, OFF-TAKE, ETC.). HE WENT ON TO SAY THAT IF ANY OF CONSORTIUM COMPANIES "HAVE A STRONGER LOVE AFFAIR ELSEWHERE" AND DON'T WANT TO DO WHAT IS REQUIRED FOR IRAN, THEN LET THEM GO ELSEWHERE AND BE REPLACED BY OTHER FOREIGN COMPANIES WHO WOULD BE DELIGHTED TO HAVE OPPORTUNITY TO COME IN AND OPERATE IN IRAN ON MUTUALLY SATISFACTORY TERMS.

4. WHILE NOT GOING INTO FURTHER DETAIL, HE SAID IF

CONSORTIUM COMPANIES COULD NOT MEET HIS POST-1979 REQUIREMENTS, THEY WOULD APPEAR TO HAVE TWO OPTIONS OPEN TO THEM: (A) TO SHARE PARTICIPATION ON FIFTY-FIFTY BASIS WITH IRAN DISPOSING OF ITS SHARE AS IT SAW FIT; OR (B) SIMPLY BECOMING MARKETER OF OIL THAT IRAN WOULD SUPPLY. SHAH SAID HE PERSONALLY HOPED IT WOULD BE POSSIBLE TO REACH AGREEMENT WITH COMPANIES IN FORTHCOMING PERIOD AS HE FELT ARRANGEMENTS COULD BE WORKED OUT FOR POST-1979 PERIOD THAT WOULD BE MUTUALLY SATISFACTORY AND SERVE INTERESTS OF BOTH PARTIES AND WITH WHICH BOTH COMPANIES AND IRAN COULD LIVE.

5. I COMMENTED THAT IN VIEW OF MAJOR IMPORTANCE OF THIS PROBLEM AND COMPLEXITY INVOLVED, I HOPED IT WOULD BE HANDLED MOST CAREFULLY WITH LEGITIMATE INTERESTS OF ALL PARTIES TAKEN FULLY INTO CONSIDERATION. OTHERWISE IT OBVIOUSLY COULD CAUSE PROBLEMS WHICH WOULD AFFECT ADVERSELY INTERESTS OF OIL COMPANIES AND THEIR COUNTRIES OF ORIGIN AS WELL AS THOSE OF IRAN.

6. IN SEPARATE AND LATER CONVERSATION WITH ECONCOUSELOR, JAN VAN REEVEN, MANAGING DIRECTOR CONSORTIUM (PROTECT) DESCRIBED FAREWELL CALL PAID BY DAVID BARRAN ON SHAH BEFORE FORMER'S RETIREMENT AS CHAIRMAN OF SHELL. ACCOUNT

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PROVIDED GLOSS ON SEVERAL OF SHAH'S POINTS TO AMBASSADOR.

7. AFTER WIDE RANGING REVIEW OF POLITICAL AND ECONOMIC SITUATION IN AREA, SHAH MENTIONED THAT CONSORTIUM AGREEMENTS ENDS IN 1979 AND SAID NOW IS TIME FOR MEMBERS AND GOI WORK OUT FUTURE RELATIONS FOR POST 1979 PERIOD. SHAH REQUIRED CLEAR INDICATION OF CONSORTIUM PLANS FOR INCREASING EXPORT CAPACITY AND OFFTAKE OVER NEXT SIX YEARS I.E. FINAL YEAR FOURTH PLAN AND COMPLETE FIFTH PLAN. SHAH NOTED THAT COMPLETELY SATISFACTORY ARRANGEMENT NECESSARY IF MEMBERS EXPECTED TO MAINTAIN FUTURE POSITION IN IRAN. (VAN REEVEN COMMENTED THAT ALTHOUGH NO SPECIFIC EXPORT GOALS SET BY SHAH, THAT OTHER SOURCES HAVE INDICATED GOI EXPECTS EXPORT CAPACITY TO BE INCREASED TO 8 MILLION BPD BY 1977.)

8. CONCERNING POSSIBLE FUTURE JOINT ARRANGEMENTS, SHAH SAID HE NOT RPT NOT INTERESTED IN PARTICIPATION ON TERMS PROPOSED BY RECENT OPEC RESOLUTION BUT SUGGESTED THAT MEMBERS START THINKING ABOUT POSSIBLE DOWNSTREAM JOINT VENTURES OUTSIDE AS WELL AS WITH IRAN. BARRAN REMINDED SHAH THAT OPERATIONS IN OTHER COUNTRIES ARE UNDERTAKEN NOT BY CONSORTIUM AS SUCH BUT RATHER BY ITS INDIVIDUAL MEMBERS. SHAH ADMITTED THIS BUT SAID HE ALSO INTERESTED IN A NEW EXPORT ORIENTED REFINERY WITHIN IRAN AT A LOCATION CONSIDERABLY REMOVED FROM THE PRESENT ABADAN REFINERY.

9. SHAH NOTED THAT AFTER 1979 SEVERAL OPTIONS ARE OPEN TO IRAN. AMONG THEM: (A) IRAN TO TAKE COMPLETE CONTROL OF ITS OIL PRODUCTION AND SIMPLY SELL IT TO THE COMPANIES AT PIER'S END. THIS APPROACH MIGHT WORK OUT SATISFACTORILY IF COMPANIES DO NOT DISCRIMINATE AGAINST IRAN OR, ON THE OTHER HAND, IRAN DID NOT DISCRIMINATE AGAINST ONE OR ANOTHER COMPANY. THIS IS LEAST SATISFACTORY SOLUTION IN THE SHAH'S VIEW. (B) IRAN COULD TAKE OVER WP50 PER CENT SHARE IN THE CONSORTIUM. NIOC WOULD MARKET ITS SHARE OF CONSORTIUM OIL IN COMPETITION WITH CONSORTIUM MEMBERS. THIS TOO HAS ITS DRAWBACKS SINCE PROBABLY THE NIOC COULD NOT MARKET SUCH LARGE QUANTITIES SUCCESSFULLY AND CONSORTIUM WOULD HAVE TO SELL MOST OF IRAN'S SHARE. (C) COMPANIES COULD CONTINUE PRESENT

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ARRANGEMENTS IN A SLIGHTLY REVISED MANNER BY INCLUDING THE NIOC IN DOWNSTREAM OPERATIONS EITHER IN OR OUTSIDE THE COUNTRY, AND BY PROVIDING AN INCREASED SHARE OF THE REVENUES FOR THE GOVERNMENT OF IRAN. IN ANY CASE, THE SHAH ADDED, IRAN WOULD NO LONGER TOLERATE A SITUATION WHEREBY MEMBERS CONTROLLING LESS THAN 14 PER CENT OF THE CONSORTIUM CAN FRUSTRATE ACTIONS OF BENEFIT TO IRAN.

10. SHAH REQUESTED A SPECIFIED ANNUAL AMOUNT OF COST

OIL TO MARKET ON ITS OWN. HE NOTED THAT IN THE IMMEDIATE FUTURE IRAN WOULD NEED OIL FOR POSSIBLE SALES AGREEMENTS CURRENTLY UNDER DISCUSSION WITH CITIES SERVICE AND ASHLAND OIL OF THE UNITED STATES. NO QUANTITIES MENTIONED.

11. LATER THE SHAH INSTRUCTED PARVIZ MINA TO CALL BARRAN TO TELL HIM SHAH HAD FORGOTTEN TO RAISE QUESTION OF RE-INJECTION OF ASSOCIATED GAS (NOW FLARED) INTO RESERVOIRS AS A CONSERVATION MEASURE. THIS IS A SUBJECT WHICH THE CONSORTIUM HAS MANAGED TO EVADE OVER THE YEARS AND VAN REEVEN REPORTED THAT BARRAN WAS SOMEWHAT SURPRISED THAT THE SHAH SHOULD RAISE IT. (WE DO NOT UNDERSTAND WHY HE WAS SURPRISED IN VIEW OF PUBLICITY RE RE-INJECTION AS ESSENTIAL CONSERVATION MEASURE.)

12. AS BACKGROUND TO ABOVE, SHAH'S WISHES CONCERNING POST 1979 ARRANGEMENTS WERE RAISED BY EGHBAL IN LAST OCTOBER LONDON TALKS. MEMBERS HAVE BEEN WORKING ON THEIR PROJECTIONS THROUGH 1976 ALMOST DAY AND NIGHT SINCE THAT TIME AND HAD PLANNED SEND HIGH-LEVEL TEAM TO IRAN IN MID-JANUARY TO INFORM SHAH OF RESULTS THESE DELIBERATIONS. SINCE OPEC WILL MEET IN GENEVA IN MID-JANUARY, SHAH HAS TOLD MEMBERS TO MEET HIM IN EARLY FEBRUARY EITHER IN TEHRAN OR SAN MORITZ, DEPENDING ON WHETHER HE CAN DEPART FOR HIS ANNUAL WINTER HOLIDAY MORE OR LESS ON SCHEDULE. THE SHAH SPECIFICALLY MENTIONED THAT HE PREFERRED NOT TO MEET AT ZURICH BECAUSE OF THE UNHAPPY MEMORIES HE HAD AT THE PREVIOUS MEETING WITH MEMBERS THERE IN EARLY 1969.

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